

# Euro wrap-up

## Overview

- Bunds were little changed as the flash estimates of euro area inflation surprised on the upside but German retail sales figures disappointed.
- Despite another subdued UK consumer confidence survey, Gilts made losses.
- Saturday will bring the outcome of Germany's SPD leadership election, while the coming week's data calendar includes German factory orders and IP in October, and euro area employment and expenditure in Q3.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 12/21	-0.646	-0.004
OBL 0 10/24	-0.588	+0.001
DBR 0 08/29	-0.364	-0.001
UKT 3¼ 09/21	0.544	+0.030
UKT 1 04/24	0.513	+0.024
UKT 0¾ 10/29	0.697	+0.021

\*Change from close as at 4:30pm GMT.

Source: Bloomberg

## Euro area

### Inflation (slightly) stronger than expected in November

The flash estimates of euro area inflation in November beat expectations, although the figures were not a big surprise after yesterday's German and Spanish numbers had come in slightly stronger than anticipated. In particular, the headline euro area CPI rate rose 0.3ppt from October's three-year low to 1.0%Y/Y, still however below the average for the year to date. The increase was partly due to higher food inflation (up 0.5ppt to 2.0%Y/Y). But services inflation, up 0.4ppt to 1.9%Y/Y, matched April's high for the year due not least to the peculiarities of changes to the weighting of German package holidays. Inflation of non-energy industrial goods was also firmer, however, up 0.1ppt to 0.4%Y/Y. As such, core inflation rose 0.2ppt to 1.3%Y/Y, matching the highest rate of the past four years.

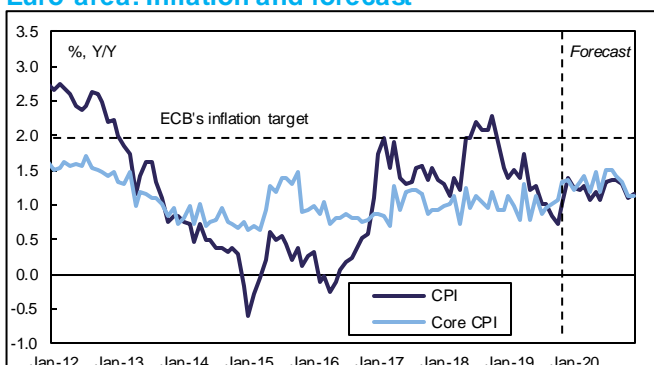
### ECB to expect target-consistent inflation in 2022

Not least due to energy inflation base effects, we expect headline inflation in December to jump to 1.4%Y/Y. But with core inflation set to remain close to November's levels, headline inflation is then likely to be slightly softer throughout the first half of next year as energy inflation declines again. As a result, in 2020, we expect headline inflation to average 1.2%Y/Y and core inflation to average the current rate of 1.3%Y/Y. Both forecasts for that year are above the respective ECB estimates (1.0%Y/Y and 1.2%Y/Y respectively). But we are more downbeat than the central bank about inflation in 2021, expecting both headline and core measures to average 1.3%Y/Y that year, 0.2ppt lower than the ECB's equivalent projections. And on 12 December, when it will publish its first projections for 2022, we expect the ECB to be overly-optimistic, with forecasts for both measures consistent with its target of close to 2.0%Y/Y.

### Unemployment rate levelling off

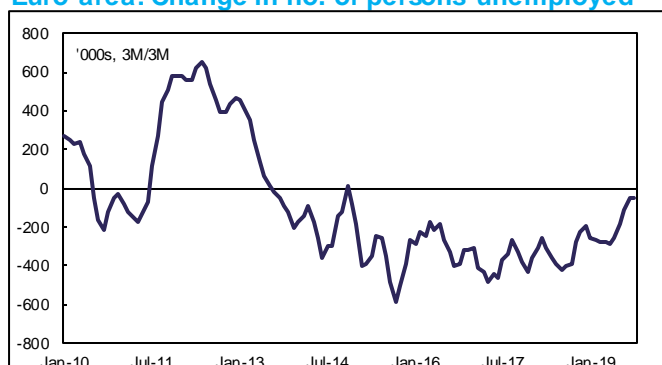
The euro area's unemployment data for October illustrated why we expect to see little improvement in underlying inflation ahead. Thanks to declines in France and Italy, and steady results in Germany and Spain, the headline euro area rate edged down 0.1ppt to 7.5%. But that merely matched the rates in June and August. So, having declined steadily from the peak of 12.1% in mid-2013, the unemployment rate appears to be levelling off around the current rate. Indeed, while the number of people registered unemployed fell again in October, the three-month decline of 49k was the smallest since 2014. Today's German data for November reported a drop in joblessness of 16k, the most since February. However, we note that recent job growth in the largest member state has been fully accounted for by the public sector, the national claimant count measure was unchanged in November at 5.0% for a fifth month, and vacancies dropped for the eighth successive month to the lowest level in more than two years.

### Euro area: Inflation and forecast



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Euro area: Change in no. of persons unemployed



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## German retail sales disappoint at start of Q4

The latest German retail sales data were much weaker than expected, with a drop of 1.9% M/M in October, the worst single-month reading so far this year. And that left the annual rate down at just 0.8% Y/Y, the weakest in six months. This series is notoriously volatile, and we certainly shouldn't place too much weight on one month's figure. However, October's decline followed two months of effectively flat sales and so left the level of retail sales in October similarly 1.9% below the Q3 average. Therefore, while the labour market appears stable, consumer confidence has improved slightly, and the November Ifo business survey reported that retailers expect sales to improve significantly over the festive period, these data are strongly suggestive of a renewed slowdown in German consumer spending in Q4 following firmer growth of 0.4% Q/Q in Q3.

## The week ahead in the euro area and US

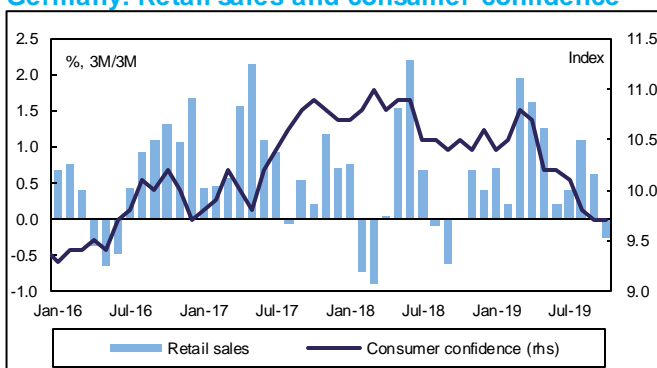
The next key event in the euro area will come on Saturday afternoon, when Germany's Social Democrat Party (SPD) will announce the victors of its leadership contest. The outcome could well have a significant bearing on the future of the government coalition (GroKo) in which the SPD is the junior partner of Merkel's CDU/CSU alliance. If, as expected, the party membership elects Finance Minister Olaf Scholz and his running mate Klara Geywitz, the GroKo should be able to last out the remainder of its term until the second half of 2021. But if – as the party's youth wing hopes – Scholz and Geywitz lose out to their opponents, Norbert Walter-Borjans (former Finance Minister of North Rhine-Westphalia) and left-leaning GroKo critic Saskia Esken, then doubts about the coalition's future – and that of German politics – will dominate the start of the coming week.

Data-wise, a fairly busy week is in store. As far as euro area releases are concerned, Monday will bring the final manufacturing PMIs for November, for which the flash headline figure provided hints that the pace of deterioration in the sector has eased with a second successive monthly increase. The final services and composite PMIs, for which the flash estimates suggested further weakening of momentum, are due on Wednesday. The following day will bring an updated estimate of Q3 GDP, which seems likely to confirm growth of 0.2% Q/Q. More interesting will be the release of the expenditure breakdown, which seems likely to show that growth was driven by consumption while fixed investment contracted. Q3 employment figures are also due on Thursday along with October's retail sales data, and both are likely to show little if any growth in the latest period. At the member state level, the data focus will be Germany's industrial sector, with October factory orders due on Thursday and IP for the same month due on Friday. A second successive monthly increase is expected, although the anticipated rise in IP is not expected to reverse the drop in September.

Ahead of the Governing Council meeting the following week, ECB President Lagarde will testify at the European Parliament on Monday, while the European Parliament committee hearings into the Executive Board nominees Isabel Schnabel and Fabio Panetta will be held the following day. In the markets, Germany will sell 10Y Bunds on Wednesday while France and Spain are scheduled to sell a range of bonds on Thursday.

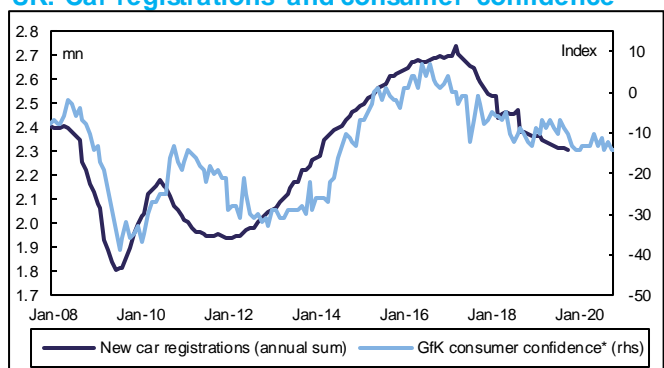
In the US, a busy week will kick off on Monday with the ISM manufacturing survey and final Markit PMIs for the sector. The related non-manufacturing ISM and services PMIs come on Wednesday. In between, Tuesday will bring November vehicle sales data. The ADP employment report is also due on Wednesday, ahead of the weekly claims numbers on Thursday, when final October factory orders and trade data will be released. Most notably, the November labour market report is due on Friday. The consensus forecast for nonfarm payrolls is currently a rise of about 190k, above the average for the past six months, boosted by returning GM workers. The unemployment rate is expected to remain unchanged at 3.6%, while monthly wage growth is expected to tick up slightly to 0.3% M/M, albeit leaving the annual rate unchanged at 3.0% Y/Y. The preliminary University of Michigan consumer confidence survey for December is also due on Friday. There are no UST auctions currently scheduled in the coming week.

### Germany: Retail sales and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### UK: Car registrations and consumer confidence



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

## UK
















### Consumer sentiment still subdued

Perhaps unsurprisingly given the dire choices on offer to voters at the forthcoming general election, the latest GfK survey results suggested that UK consumers remain downbeat. The headline survey indicator remained unchanged in November at -14, matching the lowest reading in more than six years. And within the detail, the sub-indices related to assessments of individuals' personal financial situation and the general economic situation were little different to last month. That's also true of the survey measure for the climate for making major purchases, although the 1pt decline to 0 left it at the lowest level since June. We caution, however, that – with the exception of spending on new cars – consumer confidence is not the best guide to UK private consumption, which we expect to provide support to GDP growth again in the current quarter.

### The week ahead in the UK

The main UK economic focus in the first half of the coming week will be on the final November PMIs. The manufacturing survey (Monday) is expected to confirm the deterioration seen in the preliminary release, with the headline index having declined 1.3pts to 48.3, the seventh successive sub-50 reading. The construction PMI (Tuesday) is also likely to report ongoing significant weakness this month. And with the flash services survey having surprised on the downside, with the headline index declining 1.4pts to 48.6, the composite PMI will likely be confirmed at 48.5, a drop of 1.5pt from October to its second-lowest level since the Global Financial Crisis. Tuesday will also bring the BRC's latest retail sales monitor for November, while new car registrations figures for the same month will follow on Thursday. In the markets, the DMO will sell 10Y Gilts on Tuesday and 30Y Gilts on Thursday.

## Daiwa economic forecasts














	2019				2020				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP forecasts %, Q/Q</b>											
Euro area 	0.4	0.2	0.2	0.1	0.2	0.2	0.2	0.1	1.1	0.7	0.5
Germany 	0.5	-0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.6	0.5	0.4
France 	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.3	1.2	0.8
Italy 	0.1	0.1	0.1	0.0	0.0	0.1	-0.1	-0.1	0.2	0.1	0.0
Spain 	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	2.0	1.6	1.1
UK 	0.6	-0.2	0.3	-0.1	0.2	0.2	0.2	0.1	1.2	0.5	0.5
<b>Inflation forecasts %, Y/Y</b>											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	1.2	1.1	1.3	1.2	1.2	1.2	1.4
Core CPI 	1.0	1.1	0.9	1.3	1.3	1.3	1.5	1.2	1.0	1.3	1.3
UK											
Headline CPI 	1.9	2.0	1.8	1.5	1.7	1.1	0.9	1.0	1.8	1.3	1.5
Core CPI 	1.9	1.7	1.7	1.7	1.6	1.4	1.2	1.1	1.7	1.3	1.3
<b>Monetary policy</b>											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.60	-0.60	-0.50	-0.60	-0.60
Net asset purchases* 	0	0	0	20	20	20	30	30	20	30	30
BoE											
BankRate % 	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.75	0.50	0.25
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0

\*Monthly target €bn, end of period. \*\*Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Unemploymentrate %	Oct	7.5	7.5	7.5	7.6
	 Preliminary CPI (core CPI) Y/Y%	Nov	1.0 (1.3)	0.9 (1.2)	0.7 (1.1)	-
Germany	 Retail sales M/M% (Y/Y%)	Oct	-1.9 (0.8)	0.2 (3.0)	0.1 (3.4)	0.0 (-)
	 Unemploymentrate % (change '000s)	Nov	5.0 (-16.0)	5.0 (6.0)	5.0 (6.0)	-(5.0)
France	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	1.0 (1.2)	1.0 (1.1)	0.8 (0.9)	-
	 Final GDP Q/Q% (Y/Y%)	Q3	0.3 (1.4)	0.3 (1.3)	0.3 (1.3)	-
	 Consumer spending M/M% (Y/Y%)	Oct	0.2 (-0.2)	0.3 (-0.3)	-0.4 (0.3)	-0.3 (0.5)
Italy	 Unemploymentrate %	Oct	9.7	9.8	9.9	-
	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Nov	0.4 (0.4)	0.3 (0.2)	0.3 (0.2)	0.2 (-)
	 Final GDP Q/Q% (Y/Y%)	Q3	0.1 (0.3)	0.1 (0.3)	0.1 (0.1)	-
UK	 GfK consumer confidence	Nov	-14	-14	-14	-
	 Lloyds business barometer	Nov	9	-	6	-
	 Net consumer credit (net mortgage lending) £bn	Oct	1.3 (4.3)	0.9 (3.8)	0.8 (3.8)	-(3.9)



























### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.


# Coming week's data calendar

## The coming week's keydata releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 2 December 2019</b>					
EMU		09.00 Final manufacturing PMI	Nov	46.6	45.9
Germany		08.55 Final manufacturing PMI	Nov	43.8	42.1
France		08.50 Final manufacturing PMI	Nov	51.6	50.7
Italy		08.45 Manufacturing PMI	Nov	47.7	47.7
Spain		08.15 Manufacturing PMI	Nov	47.0	46.8
UK		09.30 Final manufacturing PMI	Nov	48.3	49.6
<b>Tuesday 3 December 2019</b>					
EMU		10.00 PPI Y/Y%	Oct	-1.7	-1.2
Spain		08.00 Unemployment 000s	Nov	-	97.9
UK		00.01 BRC retail sales monitor, like-for-like sales Y/Y%	Nov	-	0.1
		09.30 Construction PMI	Nov	44.8	44.2
<b>Wednesday 4 December 2019</b>					
EMU		09.00 Final services (composite) PMI	Nov	51.5 (50.3)	52.2 (50.6)
Germany		08.55 Final services (composite) PMI	Nov	51.3 (49.2)	51.6 (48.9)
France		08.50 Final services (composite) PMI	Nov	52.9 (52.7)	52.9 (52.6)
Italy		08.45 Services (composite) PMI	Nov	52.0 (50.6)	52.2 (50.8)
Spain		08.15 Services (composite) PMI	Nov	52.0 (50.6)	52.7 (51.2)
UK		09.30 Final services (composite) PMI	Nov	48.6 (48.5)	50.0 (50.0)
<b>Thursday 5 December 2019</b>					
EMU		10.00 Retail sales M/M% (Y/Y%)	Oct	0.0 (2.3)	0.1 (3.1)
		10.00 Final GDP Q/Q% (Y/Y%)	Q3	0.2 (1.2)	0.2 (1.1)
		10.00 Final employment Q/Q% (Y/Y%)	Q3	0.1 (1.0)	0.2 (1.2)
Germany		07.00 Factory orders M/M% (Y/Y%)	Oct	0.5 (-4.7)	1.3 (-5.4)
		08.30 Construction PMI	Nov	-	51.5
Spain		08.00 Industrial production M/M% (Y/Y%)	Oct	-0.4 (-0.5)	-0.8 (0.8)
UK		09.00 New car registrations Y/Y%	Nov	-	-6.7
<b>Friday 6 December 2019</b>					
Germany		07.00 Industrial production M/M% (Y/Y%)	Oct	0.3 (-3.5)	-0.6 (-4.3)
France		07.45 Trade balance €bn	Oct	-5.2	-5.6
Italy		09.00 Retail sales M/M% (Y/Y%)	Oct	-	0.7 (0.9)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	GMT	Event / Auction
<b>Monday 2 December 2019</b>		
EMU	 14.00	ECB President Lagarde testifies at the European Parliament
<b>Tuesday 3 December 2019</b>		
UK	 10.30	Auction: 0.875% 2029 bonds
<b>Wednesday 4 December 2019</b>		
Germany	 10.30	Auction: €3bn of 0% 2029 bonds
<b>Thursday 5 December 2019</b>		
France	 09.50	Auction: 0.75% 2028 bonds
	 09.50	Auction: 5.5% 2029 bonds
	 09.50	Auction: 4.0% 2060 bonds
Spain	 09.45	Auction: to sell bonds
UK	 10.30	Auction: to sell 1.75% 2049 bonds
<b>Friday 6 December 2019</b>		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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